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PREPARATIONS FOR THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT ON THE BASIS OF GENERAL ASSEMBLY RESOLUTION 44/228 AND TAKING INTO ACCOUNT OTHER RELEVANT GENERAL ASSEMBLY RESOLUTIONS

CROSS SECTORAL ISSUES

Position paper submitted by Argentina and Brazil

Financial resources

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FINANCIAL MECHANISMS FOR THE PROMOTION OF SUSTAINABLE DEVELOPMENT

I. Principles

1. The growing threat of imbalance in the global ecosystem is a direct consequence of development models that have been adopted since the first industrial revolution, especially in the developed world, where inadequate production, consumption, and waste standards have prevailed, particularly in regard to energy sources. In developing countries, environmental problems originate mainly from development models which have not created conditions to overcome poverty, with ensuing environmental degradation, which is aggravated by the limited access these countries have to environmentally sound technologies.

2. In order to solve the serious environmental problems of our days, efforts are required from the international community as a whole. The main effort must come from the highly industrialized countries, which are in a better position in terms of resources and which have played a more significant part in bringing about the damages and risks we are facing today.

3. The promotion of sustainable development is the fundamental goal of the Rio Conference. This concept was defined by the Governing Council of UNEP as the kind of development which meets the present needs without jeopardizing those of future generations and which does not imply, from any point of view, any intereference in the national sovereignty of States. The implementation of sustainable development involves greater international cooperation, including assistance to developing countries, according to their national development plans, priorities and objectives. Sustainable development also depends on a favourable international economic situation capable of producing sustainable economic growth in all countries. Therefore, it requires a prompt solution to the economic crisis which affects the developing world through stepped-up flows of financial and technological aid to these countries. In addition, the consolidation of more equitable international trade mechanisms is essential. Finally, sustainable development implies the incorporation of environmental considerations into the planning process and economic policies, requiring substantial investments in the protection of the environment on a global and local scale without introducing a new form of conditionality to the funding of development.

4. Given the economic and financial restrictions developing countries face, the attainment of a common objective of sustainable development requires an expanded flow of funds to finance programmes and projects aimed at promoting environmentally sound development models in these countries, without sapping the funds already allocated to traditional international cooperation initiatives. These funds must therefore be new and additional.

5. The funds for initiatives directly related to protect and recover the quality of the environment are, in most cases, channelled to projects which produce none or very little financial return. A highly concessional component must also be incorporated to these funds, so that the disbursements may be made on a non-refundable basis or with preferential return rates, according to the characteristics of each project. One must not forget that important

social gains will be achieved by the implementation of environmental projects. This is an economic fact that would by itself justify the financing of such projects, either by national means or by the international community.

6. If the Rio Conference is to make fundamental decisions aimed at promoting sustainable development on a global scale and establishing a comprehensive action programme in this regard, we must bear in mind that the effectiveness and credibility of those decisions directly depend on a financial support mechanism capable of making the necessary investments feasible in the developing world.

7. In tune with the new rationale of sustainable development, it is worthwhile to point out that an environmental expense should be seen more as an investment, than a cost, especially in terms of the creation of social benefits, even if only on a long-term basis.

8. The new financial resources should be channelled by means of appropriate institutional mechanisms. The mechanisms available today are clearly inadequate for the new commitments to be taken on by the international community at the Rio Conference. The main problems of the "traditional" financing sources - bilateral cooperation, UNEP Environment Fund, multilateral financing institutions, and the Global Environmental Facility of the World Bank, among others - are the insufficiency or nonexistence of concessional disbursement modes, the imposition of conditionalities and limitations on meeting the receipient's priorities, and the "stagnant" treatment given to the environment and development issues.

9. In addition, the new resources cannot be limited only to financing initiatives related to environmental issues commonly defined as global. They should also serve the local and domestic environmental issues of developing countries. It is important to notice that there is not a hierarchy between the local and the global problems. Although local problems effect more directly the communities which experience them, they often have also an impact on the ecosystem of the planet as a whole.

10. The several multilateral legal instruments which are already available or are in negotiation on the global issues related to the environment (ozone layer, biological diversity, climate change, etc.) should include financial mechanisms of their own. This would ensure concessional resources to the developing countries, which are parties to it, aimed at covering, in full, the incremental costs of their obligations. Even if the developing countries accept the burden of international legal obligations related to the protection of the environment in connection with problems for which they are accountable only to a limited extent, they will hardly have the means to implement their commitments.

11. In addition to the mechanisms provided for in specific international instruments, a Fund for the Promotion of Sustainable Development (henceforth referred to as "the Fund") should be established on an open basis with the aim of financing solutions to the environmental problems faced by developing countries, and the expansion of their national technological capacities, as well as the environmental components of development programmes and projects, so as to promote the sustainable development model.

12. The contributions made to the various new mechanisms, that is, the Fund and the mechanisms linked to agreements on global issues, should be compulsorily provided by the countries that are in a position to do so. They should be preferentially set according to technical criteria, with the aim of guaranteeing the predictability and steadiness of the necessary resources to be applied in the different objectives involved. These resources will be channelled to the developing countries, which will have no obligation to contribute.

13. The financial resources to be invested in domestic programmes and projects of the developing countries would include the financing of the following initiatives, inter alia, according to Agenda 21:

(a) Basic sanitation projects in urban areas with a large concentration of population;

(b) Water decontamination and watershed protection projects;

(c) Control of chemical and solid waste, particularly of toxic and dangerous substances;

(d) Air pollution control in industrial areas;

(e) Protection and rational use of coastal zones;

(f) Protection of land resources: actions against desertification, deforestation, erosion, and drought; and support to rural communities, so as to settle population in areas with agricultural capability and alleviate pressure on forest areas;

(g) Actions aimed at eradicating poverty and improving living and working conditions in rural and urban areas;

(h) Actions aimed at promoting improvements in the conditions of health and education.

14. There should be a clear definition of the donor countries and the recipient countries. According to the decisions and recommendations of the Rio Conference and to the criteria adopted by the United Nations, the developing countries shall be the recipients.

15. The decision-making process in connection with the different financial mechanisms - the Fund and the mechanisms of the conventions - should be based on the representation on a parity basis of the recipient and donor countries. It should preserve the decision-making autonomy of the parties to each of the agreements on global issues and a corresponding system should be conceived for the Fund.

16. The terms for the disbursement of resources allocated to each environmental project financed by the Fund and by specific mechanisms should be adapted to the nature of such projects, taking into account not only its financial return features, but also its dimension and extension.

II. Financing Mechanisms

17. A first issue to be considered is the definition, even if appproximately, of the amount of resources needed to meet the priorities of the developing countries and their commitments in connection with the agreements on global issues. Some data is available in the document on Financial Mechanisms prepared by the secretariat of UNCED to inform the debates of the III Session of the Preparatory Committee (A/CONF.151/PC/51):

(a) Total amount of Official Development Assistance (ODA) - 55 billion dollars/year, which is a modest figure as compared to the 25-trillion-dollar global-wide GDP, and which corresponds to about 0.35% of the GDP of OCDE countries, and only half of the 0.7% of GDP goal for ODA set up by the United Nations;

(b) Additional resources necessary to assure a minimum growth rate combined with environment-protecting strategies in LDCs: 60 billion additional dollars in 1990, reaching a sum of 140 billion additional dollars in the year 2000 (WIDER - World Institute for Development Economics Research, United Nations University);

(c) According to WIDER, the above-mentioned sums can be fully covered by the international financing capacity. The key issue is political will.

18. "Accurately" defining the sums may be a time-consuming task, and this fact should not be used as an excuse to impose obstacles on the creation of appropriate financial mechanisms and their implementation. The definition of necessary sums will be refined as operation of the Action Programme to be adopted by the Rio Conference begins.

19. The precedent of the Montreal Protocol Fund and the experience acquired during its first year of activities must be taken into account in the process of establishing the new financial mechanisms. Identical or similar solutions to the ones defined by the parties to the Protocol will be used as a basis for the referral of concrete proposals on the following points:

(a) Institutions under which the different financial mechanisms will be established;

(b) Financial management (a Treasury function);

(c) Decision-making on the financing of projects;

(d) Implementation and follow-up of operational activities;

(e) Institutions responsible for the secretariat function of the Fund.

III. Proposal for the Creation of the Fund for the Promotion of Sustainable Development.

20. The Rio Conference will decide on the institutional location of the Fund. The institution under which the Fund will be created would be basically charged with treasury functions.

21. The new Fund will be served by a small secretariat, but one consistent with its assignments.

22. The decision-making process related to the approval of projects within the context of the Fund will require the participation on a parity basis of donor and recipient countries.

23. Designed International Institutions will act as "implementing agencies" within the limits of their institutional competence. The terms set for the cooperation between these "agencies" and the Fund will be defined by means of agreements individually negotiated with each "agency".

IV. Setting Criteria for Compulsory Contributions to the Financial Mechanisms

24. The contributions to the future financial mechanisms should be defined according to specific criteria. It is also important to set a goal for the total amount of annual contributions, thereby ensuring the predictability of resources needed to finance the desired actions.

25. The financial mechanisms to be defined by the different conventions being negotiated at present should include the criteria for setting the contributions. Therefore, the assumptions listed below are more specifically related to the criteria which are applicable to the establishment of contributions to the Fund for the promotion of the sustainable development.

26. Bearing in mind that certain patterns of consumption and the use of some products, directly or indirectly, play a role in generating environmental problems, compulsory contributions could be set in order to promote the adoption of sustainable patterns worldwide and discourage the patterns of production and consumption that prevail in developed countries. An example which has been very often cited due to its contribution to pollution and environmental damage is the use of fossil fuels. The choice of the products and the value of contributions as a percentage of their consumption should be evaluated by specific fora of experts. One of the main advantages of this proposal is the fact that it is based on equity: excluding the developing countries, for obvious reasons, those countries among the developed countries with high rates of consumption should afford higher economic costs. An additional advantage is that low values established for widely-consumed products will produce substantive contributions, as the following examples show:

(a) Consumption of oil barrels in OECD countries: 37.5 million barrels/day = 13,687,500,000 barrels/year (1989). A tax of $US 1 on the consumption of each oil barrel (or equivalent product) would produce an annual global revenue of about 13.6 billion dollars;

(b) Motor-driven vehicles in circulation in OECD countries: in the USA alone, there are 177,135,000. A contribution of $US 10 for each vehicle/year would yield 1,771,350,000/year.

(c) Daily circulation of newspapers in OECD countries: in the USA alone, there are 267 copies/1,000 inhabitants (1983), or 63,546,000 copies/day = 23,194,290,000 copies/year. Contribution of $US 0.001 for each copy: $US 23,194,290,000/Year.

27. Each country should define its own means to raise resources to cover the cost of its contribution.

V. Raising Additional Resources for the Fund

28. Many innovative approaches may be considered in this connection, in addition to the compulsory contributions:

(a) Issue of Bonds. Environmental control projects would be funded by means of the issuance of bonds by international organizations, endorsed by the industrialized countries. The bonds would have a long reimbursement term (20 to 30 years) and the interest would be paid by the endorsing countries. The interest paid to the purchasers of the bonds would be low and would be free of taxes in the respective countries;

(b) Clearing house. Projects within the interests of developing countries would be submitted to the secretariat of the Fund. The latter would act as a clearing house, spotting possible alternative bilateral or multilateral financing sources. If the financing for the project is insufficient, it would be referred to the Executive Committee of the Fund, which would discuss the possibility of complementing the sums with the Fund's own resources. The main advantage of this system is that it allows the donors to apply their disbursements to earmarked projects.

(c) Green Mail. As a complementary resource-raising mechanism, an environmental stamp would be created to be used compulsorily in all international correspondence. It allows private individuals to make donations just by buying stamps. The idea has a strong marketing appeal. Just to illustrate the volume of resources that could be raised, it is worthwhile checking the following data:

(i) International correspondence (letters, "petit paquets", printed matter, etc.) exchanged in 1989: 8,224,000,000 units;

(ii) Correspondence (only regular letters) sent by the developed countries alone in 1989: 3,750,000,000 units;

(iii) Total domestic and international correspondence sent in 1989: 431,000,000,000*;

(d) Contributions from multilateral credit organizations. Also as a complementary mechanism, part of the net income of these institutions would be annually channelled to the Fund;

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* Source: UPU data, provided by the Brazilian Mailing and Telegraph Company

(e) Contributions from international indemnification and compensatory payments related to environmental accidents could be used as a capitalization mechanism for the Fund, if the Rio Conference makes a decision in that connection;

(f) Utilization of the Special Drawing Rights of the IMF;

(g) The importance, in this context, of irmproving terms of trade, with the consequent need to reduce the net transfer of resources from developing countries towards multilateral financial organizations.

VI. Resource-Raising by the Countries on Individual Bases

29. Debt for environmentally sound development programmes may be applied to countries individually and according to their convenience. It should not be regarded as a solution to be internationally advocated.

30. A system could also be devised according to which the resources from interest and principal payment of loans borrowed with the aim of promoting sustainable development would not necessarily return to their sources. In some cases, which are yet to be defined, these resources would be kept in national Funds set up according to the domestic rules of each country and in local current, to be allocated to environmental protection projects with no financial return. This proposal would be implemented without harming in any way the continuous flow of new resources to new projects. The advantage of this proposal is that it alleviates the foreign debt of the countries involved. The disadvantage is that it "stamps" the allocated money as a loan, which remains in the recipient country.